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CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD



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June 25, 2008

Dr. Barry Takallou, President
CRM Company, LLC
15800 S. Avalon Blvd.
Compton, CA 90220

RE: FINAL REPORT – CRM COMPANY, LLC, GRANT AGREEMENTS
TR26-02-0006, TR37-03-0002 AND TR45-04-0011

Dear Dr. Takallou:

Enclosed is the final report on our audit of CRM's Tire Product Commercialization & Applied Technologies Grants TR26-02-006, TR37-03-0002, and TR45-04-0011 (Interim), awarded for the periods April 1, 2003, through April 13, 2007. Our audit included a review of receipts, expenditures, internal controls, and compliance with the grant agreement provisions.

CIWMB congratulate CRM on the results of this audit. No reportable findings resulted from the review of the information provided by CRM. Although, this review was selective and any result cannot be applied with certainty to CRM's grant program as a whole, we believe that this audit report is reflective of CRM's proper grant administration. This final report is intended for your use only.

Due to unforeseen auditor assignments, this audit was not afforded the attention due and was unintentionally set aside. We apologize for any inconvenience this delay may have caused. If you have any questions regarding this report, please contact George Mendoza, Audit Manager, at (916) 324-1358.

Sincerely,

Susan Villa, Branch Manager
Fiscal Services Branch
California Integrated Waste Management Board

Enclosure

cc: Dawn Helms, Plant Manager, CRM, 11400 E. Pecos Road,
Queen Creek, AZ 85242
Frank Simpson, Supervisor, Section 1 Central, CIWMB
Calvin Young, Supervisor, Grant Programs Section B, CIWMB
CIWMB Audits Unit Files



CRM Company, LLC

**Tire Product Commercialization
&
Applied Technologies Grant
Final Audit**

**Grants TR26-02-0006
TR37-03-0002
And
TR45-04-0011 (Interim)**

**For the Periods April 1, 2003
through April 13, 2007**

**Prepared By:
California Integrated Waste Management Board
Audits and Evaluations Unit**

May 2008

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PREFACE

The California Integrated Waste Management Board awarded three grants to the Crumb Rubber Manufacturer (CRM) Company, LLC for participation in the Tire Product Commercialization & Applied Technologies Grant Program. These grant agreements were funded by the Integrated Waste Management Account.

The grant agreements were as follows:

Grant Agreement	Amount	Audit Period
TR26-02-0006	\$250,000	April 1, 2003 – April 1, 2005
TR37-03-0002	\$250,000	June 30, 2004 – April 1, 2006
TR45-04-0011	\$250,000	June 1, 2005 – April 13, 2007

The objective of this audit was to determine CRM's fiscal compliance with the aforementioned grants. The audit also assessed CRM's compliance with applicable regulations and agreement requirements, as well as a review of internal controls.

This report is intended for the information and use of CIWMB and CRM management. However, this report is a matter of public record and its distribution is not limited.

STAFF:

George Mendoza, Audit Manager

Marlena Wells-Murphy, CGFM, Auditor
Matthew Lisonbee, Auditor

AUDITOR'S REPORT

Mr. Mark Leary, Executive Director
California Integrated Waste Management Board
1001 I Street, MS-25A
Sacramento, CA 95814

The Audits and Evaluations Unit conducted an audit of Crumb Rubber Manufacturers (CRM) Company, LLC. Public Resources Code, Section 48657, requires California Integrated Waste Management Board (CIWMB) shall conduct a selective audit of entities to determine whether grants and recycling incentives are being paid out properly. This audit report meets this statutory requirement and is intended for the information and use of CIWMB and CRM's management.

This audit included a review of receipts, expenditures, internal controls, and compliance with the grant agreement provisions for:

- TR26-02-0006, April 1, 2003, through April 1, 2005
- TR37-03-0002, June 30, 2004, through April 1, 2006
- TR45-04-0011 (Interim), June 1, 2005, through April 13, 2007.

To summarize the grant receipts and expenditures, prepared were Statements of Revenue and Expenditures (hereinafter referred to as Statements) for these agreements executed between CIWMB and CRM. These Statements were prepared from CRM's records and are the responsibility of CRM management. The audit responsibility is to provide management reassurance on the propriety of grant payments as represented by these Statements.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors. These standards require that we plan and perform the audit to provide reasonable assurance as to whether CRM is compliant with the requirements of the grant agreements. An audit includes examining, on a substantive and control test basis, evidence supporting sample amounts listed in the Statements and grant compliance disclosures.

Compliance

The accompanying Statements were prepared, as described in Note 4, for the purpose of determining CRM's fiscal compliance with the aforementioned grant agreement. The Statements are not intended to be a presentation of CRM's total revenue and expenditures.

As part of obtaining reasonable assurance on the Statements, we performed tests of CRM's compliance with certain regulations and the grant agreement. The results of our tests indicate the Statements represent fairly, in all material respects, the claimed and audited revenue and expenditures for grant agreements and meet the minimum matching fund requirements.

Management Controls

In planning and performing our audit, we considered CRM's internal control over financial reporting in order to determine our auditing procedures on the Statements and not to provide assurance on the internal control over financial reporting. The results of our tests indicate management controls over financial reporting are adequate.

This report is intended solely for the information and use of the CIWMB and CRM's management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.



Susan Villa, Branch Manager
Fiscal Services Branch
Administration and Finance Division
(916) 341-6092

June 25, 2008

STATEMENT OF REVENUE AND EXPENDITURES

CRM Company, LLC
Tire Product Commercialization & Applied Technologies
Grant TR26-02-0006
For the Period April 1, 2003, through April 1, 2005

	Claimed	Audited	Matching Share	Questioned
Revenue:				
State Grant	\$250,000.00	\$250,000.00	\$125,000.00	\$0.00
Plus: Accrued Interest	0.00	0.00	0.00	0.00
Total Revenue	<u>\$250,000.00</u>	<u>\$250,000.00</u>	<u>\$125,000.00</u>	<u>\$0.00</u>
 Expenditures:				
Design and Layout	\$0.00	\$0.00	5,400.00	\$0.00
Finalizing Equipment Contract	0.00	0.00	3,400.00	0.00
Construction of Granulation System	250,000.00	250,000.00	175,000.00	0.00
Mechanical Installation	0.00	0.00	4,800.00	0.00
Electrical Installation	0.00	0.00	25,000.00	0.00
Air Installation	0.00	0.00	3,500.00	0.00
Startup and Testing	0.00	0.00	1,400.00	0.00
Maintenance Program	0.00	0.00	5,800.00	0.00
System Evaluation	0.00	0.00	2,500.00	0.00
Outreach Program	0.00	0.00	14,100.00	0.00
Preparation of Final Report	0.00	0.00	3,900.00	0.00
Total Expenditures	<u>\$250,000.00</u>	<u>\$250,000.00</u>	<u>244,800.00</u>	<u>\$0.00</u>
 Excess of Expenditures over/under Revenue		<u>\$0.00</u>		

The accompanying notes are an integral part of this statement.

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STATEMENT OF REVENUE AND EXPENDITURES

CRM Company, LLC
Tire Product Commercialization & Applied Technologies
Grant TR37-03-0002
For the Period June 30, 2004 through April 1, 2006

	Claimed	Audited	Matching Share	Questioned
Revenue:				
State Grant	\$250,000.00	\$250,000.00	\$125,000.00	\$0.00
Plus: Accrued Interest	0.00	0.00	0.00	0.00
Total Revenue	<u>\$250,000.00</u>	<u>\$250,000.00</u>	<u>\$125,000.00</u>	<u>\$0.00</u>
 Expenditures:				
Design and Layout	\$0.00	\$0.00	5,400.00	\$0.00
Finalizing Equipment Contract	0.00	0.00	3,400.00	0.00
Equipment Construction	250,000.00	250,000.00	71,500.00	0.00
Ventura Co. Waste Tires	0.00	0.00	4,250.00	0.00
Mechanical Installation	0.00	0.00	4,800.00	0.00
Electrical Installation	0.00	0.00	22,000.00	0.00
Air System Installation	0.00	0.00	8,000.00	0.00
Startup and Testing	0.00	0.00	1,400.00	0.00
Training and Develop	0.00	0.00	4,800.00	0.00
System Evaluation	0.00	0.00	2,000.00	0.00
Progress and Final Report	0.00	0.00	3,400.00	0.00
Total Expenditures	<u>250,000.00</u>	<u>\$250,000.00</u>	<u>130,950.00</u>	<u>\$0.00</u>

Excess of Expenditures over/under Revenue \$0.00

The accompanying notes are an integral part of this statement.

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STATEMENT OF REVENUE AND EXPENDITURES

CRM Company, LLC
Tire Product Commercialization & Applied Technologies
Grant TR45-04-0011, INTERIM AUDIT
For the Period June 30, 2005, through April 13, 2007

	Claimed	Audited	Matching Share	Questioned
Revenue:				
State Grant	\$250,000.00	\$250,000.00	\$125,000.00	\$0.00
Plus: Accrued Interest	0.00	0.00	0.00	0.00
Total Revenue	<u>\$250,000.00</u>	<u>\$250,000.00</u>	<u>\$125,000.00</u>	<u>\$0.00</u>
 Expenditures:				
Design and Layout	\$0.00	\$0.00	6,100.00	\$0.00
Finalizing Equipment Contract	0.00	0.00	3,400.00	0.00
Equipment Construction	250,000.00	250,000.00	98,273.00	0.00
Develop program w/BFI and L.A. Count	0.00	0.00	11,600.00	0.00
Mechanical Installation	0.00	0.00	8,900.00	0.00
Electrical Installation	0.00	0.00	26,000.00	0.00
Startup and Testing	0.00	0.00	1,400.00	0.00
Training and Develop	0.00	0.00	4,800.00	0.00
System Evaluation	0.00	0.00	5,000.00	0.00
Progress and Final Report	0.00	0.00	5,100.00	0.00
Total Expenditures	<u>250,000.00</u>	<u>\$250,000.00</u>	<u>170,573.00</u>	<u>\$0.00</u>

Excess of Expenditures over/under Revenue \$0.00

The accompanying notes are an integral part of this statement.

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NOTES TO THE STATEMENT OF REVENUE AND EXPENDITURES

**Crumb Rubber Manufacturers (CRM) Company, LLC
Tire Product Commercialization and Applied Technologies
Grants TR-02-0006, TR37-03-0002, and TR45-04-0011 (Interim)
For Audit Periods April 1, 2003 through April 13, 2007**

Note 1 Description of the Reporting Entity

Crumb Rubber Manufacturers (CRM) Company, LLC, is a California Limited Liability Corporation established in 1998. Their main California tire recycling facility is located at 15800 S. Avalon Blvd., in Compton. H. Barry Takallou, PhD, serves as President and Chief Executive Officer. CRM recycles scrap tires to manufacture crumb rubber, the main ingredient used in rubberized asphalt for resurfacing roads and highways. CRM is California's largest producer of the ambient crumb rubber required by California agency specifications for Rubberized Asphalt Concrete (RAC). In 2005, CRM claimed to have supplied nearly 90% of the rubber in paving projects throughout California. According to CRM, their California plant recycled enough crumb rubber to pave 1,448 miles of roadway in the state. CRM also owns and operates a crumb rubber manufacturing plant in Arizona and New York.

Note 2 Program Information

California Integrated Waste Management Board administers the California Tire Recycling Act, which includes the disbursement of Tire Product Commercialization and Applied Technologies Grants from the Integrated Waste Management Account.

The Legislature enacted the California Tire Recycling Act (Public Resources Code Section 42860 – 42895) to reduce the illegal disposal of used tires, and to recycle and reuse used tires to the greatest extent possible. The Tire Product Commercialization and Applied Technologies Grant Program supports research institutions, businesses, and individuals that need assistance to develop or expand their waste tire products or applied technologies to a commercial scale.

Note 3 Descriptions of Tire Product Commercialization Grants

CRM received three grant awards in the amounts of \$250,000 for TR26-02-0006, \$250,000 for TR37-03-0002, and \$250,000 for TR45-04-0011, to provide opportunities to divert waste tires from landfill disposal, prevent illegal tire dumping, and promote markets for recycled-content tire products. The grant terms covered the overall period April 1, 2003, through April 13, 2007.

CRM's primary goals for the Tire Product Commercialization and Applied Technology Grants was to increase CRM's crumb rubber production by purchasing an advanced tire granulation system; install a tire shredding system to produce a wire free tire chip; and install a dual drive tire rubber grinding system .

Note 4 Summary of Significant Accounting Policies

Basis of Presentation

The Statements presented in this report were prepared from CRM's accounts and financial transactions. The Statements summarizes revenue and expenditures recorded by CRM during the reporting periods referenced in Note 3. The Statements summarizes CRM's transactions pertaining to TR26-02-0006, TR37-03-0002 and TR45-04-0011, and are not intended to represent all of CRM's financial activities.

Note 5 Matching Fund Requirement

CRM met the minimum matching fund requirement for its grant matching share. Both the Annual Report and the Expenditure Itemization Summary, as required by the grant agreement, reflect the matching fund requirement.